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Mexico Lifts Controls On Bank Interest Rates

by John Neagle

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The Mexican government recently revoked the Central Bank's power to fix uniform interest rates. Plans are reportedly underway to permit commercial banks to set their own rates. Banks were nationalized in 1982. The government is to relax reserve requirements that presently require banks to keep on deposit with the Banco de Mexico any combination of cash deposits, treasury notes and government bonds that adds up to 30% of retail deposits. As a result of such stringent requirements which were raised since mid-1985, a parallel banking system developed. This system has been centered in major stock brokerages and insurance companies. The new measures appear to be aimed at reducing high interest rates, which make costly the government's service of its \$45 billion domestic debt, and to provide more cash for borrowers. Since an increase in the money supply is generally inflationary, the government has indicated that the measures will be staggered over several months. Bankers and other financial experts say the government's action is likely to bring about further concentration of the banking sector, which is already dominated by a few giants. (Basic data from New York Times, 04/10/89)

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